Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Telemarketing Fraud

www.irs.gov IRS Keyword: Fraud Fiscal Year 2004

Overview

Text Only .htm

The typical illegal telemarketer operates by exploiting the trust of consumers to whom they present an opportunity "too good to be true." These opportunities include cash, vehicles, vacations, jewelry, investments, donations to charity, participation in lotteries, or the opportunity to recoup losses from prior schemes. These "opportunities" are, in fact, too good to be true. Many times the merchandise or prizes are never delivered, or if delivered, are of minimal value and do not comport with claims made by the promoters.

In many instances senior citizens are the targets of telemarketers and in some situations their names are sold to other telemarketers to re-contact the victims to try and obtain more money with new false promises and pitches, a procedure the telemarketers call "reloading."

Advanced telecommunications, along with electronic banking, has led to unprecedented growth in the telemarketing industry. The Internet is also a productive tool for telemarketers. It allows them to reach a wide audience to market fraudulent credit repair schemes, business opportunities, pyramid investments and sweepstakes promotions in all 50 states quickly and at a much-reduced cost.

Criminal Investigation is combating telemarketing fraud by conducting investigations of fraudulent schemes in conjunction with multi-agency task forces. Criminal Investigation continues to employ innovative investigative techniques in pursuit of fraudulent telemarketers. Criminal Investigation pursues illegal telemarketers by recommending prosecution for violations of Title 18, Sections 371, 1956 and 1957, conspiracy and money laundering. When possible and appropriate, CI also recommends prosecution on more traditional Title 26 violations, including income tax evasion, filing a false return, failure to file a return, aiding and abetting in the preparation of false return.

The Federal Trade Commission's (FTC) Consumer Sentinel database is an online database that contains over 300,000 consumer complaints about fraud and deceptions from the FTC, law enforcement and consumer protection agencies. The database is used to analyze reports on a quarterly basis to target repeat offenders and refer information to investigative and regulatory agencies. The database allows law enforcement and regulatory agencies to focus resources on the smaller percentage of companies involved in fraudulent activity.

The National Fraud Information Center (NFIC), established in 1992 by the National Consumers League, receives complaints from and provides assistance to consumers. NFIC advises consumers about telephone solicitations and alleged telemarketing fraud to law enforcement agencies. According to the NFIC, the 2001 top five telemarketing fraud schemes reported include Work-At-Home, Prizes/Sweepstakes, Credit Card Issuing, Advance Fee Loans and Magazine Sales. The initial contact for these types of schemes reported to the NFIC involved the phone (44%), mail (37%) and other medium (19%). The top five United States telemarketing company locations are Florida (12%), California (12%), New York (10%), Texas (6%) and Illinois (4%).

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	35	64	51
Prosecution Recommendations	46	30	32
Indictments/Informations	44	30	35
Sentenced	23	46	57
Incarceration Rate*	82.6%	80.4%	91.2%
Average Months to Serve	36	49	48

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Telemarketing Fraud Crimes Investigations

The following examples of telemarketing fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

Ponzi Scheme Lands Two in Prison

On April 14, 2004, in Corpus Christi, TX, Rufino Serna Munoz and Jose Luis Balderas were sentenced to federal prison terms today for conspiring to commit mail and wire fraud and money laundering arising from a fraudulent "Ponzi" investment scheme, which bilked "investors" out of approximately $2.3 million dollars. Rufino Serna Munoz was sentenced to 90 months and Jose Luis Balderas received 87 months in federal prison, without parole, for their offenses. In addition to the prison terms, the court ordered the men to jointly pay restitution in the total amount of almost $1.7 million to more than 50 "investor" victims. Munoz and Balderas told investors they could earn monthly returns of 3% to10% in interest on their investments. Munoz and Balderas operated their "Ponzi" scheme never investing the investors' money. Instead, Munoz and Balderas merely swirled the money through each other's bank accounts, made a few payments to investors with their own or another investor's money to foster trust and to encourage additional investment, but ultimately, the majority of the investors' funds were spent by Munoz and Balderas on themselves.

San Diego Man Sentenced For Tax Evasion.

On March 3, 2004, in San Diego, CA, Francis Manfred was sentenced to 21 months in prison for tax evasion. Manfred previously pled guilty to one count of income tax evasion in connection with his role in the San Diego operation of TLC Investment and Trade Company. Manfred was a salesman for TLC which raised funds from individuals by representing that TLC would use the funds to invest in tax lien certificates resulting in a 12-19% annual return. In actuality, TLC used investor funds to make payments to pay undisclosed commissions, pay returns to other investors, and pay TLC's overhead. As a result of these misrepresentations, TLC raised over $8 million from investors. Over a three-year period, Manfred failed to report commission income he received from TLC in excess of over $1 million. This resulted in a tax loss to the government of $476,364 which Manfred was ordered by the court to pay to the Internal Revenue Service.

Minnesota Man Sentenced In Credit Card Scam.

On January 28, 2004, in St. Paul, MN, Victor Stanley Wilcox was sentenced to 100 months in prison and ordered to forfeit $1.9 million to the United States after pleading guilty to conspiracy to launder money. Wilcox was the man at the center of a credit card scam that defrauded more than 50,000 people nationwide of over $2.7 million dollars. Co-defendants Belinda Sweeney Granlund and Troy Kisling have already been sentenced. Granlund plead guilty to conspiracy to commit mail fraud and was sentenced to four months home confinement followed by one month of community confinement and ordered to pay $20,000 in restitution and pay a $7,500 fine. Kisling plead guilty to mail fraud and was sentenced to 30 months in prison.

Two More Defendants In $74 Million Investment Fraud Scheme Involving More Than 3,200 Victims Sentenced

On December 10, 2003, in Seattle, WA, William H. Cravens and Elizabeth Anne Phillips were sentenced to prison terms of 48 and 24 months respectively, along with 3 years of supervised release. The sentences were for their role in a fraudulent investment program that defrauded more than 3,200 victims in the United States and Canada of approximately $74 million dollars. Other participants previously sentenced include John. W. Zider, the leader of the fraudulent program, sentenced to 30 years in prison, Steven C. Moreland sentenced to 292 months in prison and John W. Matthews, sentenced to 48 months in prison. The defendants promised investors a return of 120% per year and told investors their principal was assured against loss. Investors also were told that if they rolled a single unit over for ten years it would be worth millions of dollars. In fact, the defendants actually were operating a Ponzi scheme.

Perpetrator of $74 Million Investment Fraud Scheme Involving More Than 3,200 Victims Sentenced to 24 Years' Imprisonment

On August 22, 2003, in Seattle, WA, Steven C. Moreland was sentenced to 292 months in prison following his conviction in August 2002 on conspiracy to commit mail and wire fraud, conspiracy to commit money laundering, mail fraud, wire fraud, and money laundering. Moreland was one of the perpetrators of a fraudulent investment program that defrauded more than 3,200 victims in the United States and Canada of approximately $74 million. Five other persons either entered guilty pleas, or were convicted at trial, on charges of fraud and conspiracy in connection with the same fraudulent investment scheme. John W. Zidar, the leader of the fraudulent investment scheme, recently was sentenced to 30 years' imprisonment. The defendants promised investors a return of 120% per year and told investors their principal was assured against loss. Investors also were told that if they rolled a single unit over for ten years it would be worth millions of dollars. In fact, the defendants actually were operating a Ponzi scheme, in which early investors were paid with later investors' money. The evidence at trial established that the defendants diverted millions of dollars for their own use and benefit, including to purchase houses and expensive vehicles, and paid substantial commissions to the agents who solicited the investors. The defendants also laundered millions of dollars through bank accounts in Samoa, the Bahamas, and Costa Rica. During the course of the investigation and prosecution of this case, the government has recovered in excess of $20 million dollars of victims' money from bank accounts controlled by the defendants and in assets purchased by the defendants using victims' money. A large proportion of this money was recovered from bank accounts in Samoa. The money recovered will be returned to victims of the fraud.

Leader of $74 Million Investment Fraud Scheme Involving More Than 3,200 Victims Sentenced to 30 Years' Imprisonment

On July 28, 2003, in Seattle, WA, John W. Zidar the leader of a fraudulent investment program that defrauded more than 3,200 victims in the United States and Canada of approximately $74 million was sentenced to 30 years' imprisonment. Zidar was convicted in August 2002 of seven counts of mail fraud, seven counts of wire fraud, and nine counts of money laundering. Five other persons either entered guilty pleas, or were convicted at trial, on charges of fraud and conspiracy in connection with the same fraudulent investment scheme. Those persons are Steven C. Moreland, John W. Matthews, Elizabeth Anne Phillips, William H. Cravens, and Larry Hall.

According to the evidence at trial, beginning in 1997 and continuing until 2000, the defendants induced members of the public to invest in a series of purported investment funds called Vista International (Vista), Oakleaf International (Oakleaf), and Rosewood International (Rosewood). Investors were required to pay $1,028 to purchase a unit in Vista or $1,294 to purchase a unit in Oakleaf or Rosewood. The defendants promised investors a return of 120% per year and told investors their principal was assured against loss. Investors also were told that if they rolled a single unit over for ten years it would be worth millions of dollars. In fact, the defendants actually were operating a Ponzi scheme, in which early investors were paid with later investors' money. The evidence at trial established that the defendants diverted millions of dollars for their own use and benefit. The defendants also laundered millions of dollars through bank accounts in Samoa, the Bahamas, and Costa Rica. The government has recovered in excess of $20 million dollars of victims' money from bank accounts controlled by the defendants and in assets purchased by the defendants using victims' money. The money recovered will be returned to victims of the fraud.

Partner in "Toner" Telemarketing Fraud Sentenced to Prison

On July 21, 2003, in Los Angeles, CA, Oren Ben Elkanah was sentenced to 24 months in prison and ordered to pay restitution of $135,930. Elkanah pled guilty to mail fraud, tax conspiracy and tax fraud charges in September 2002. Elkanah admitted that he and another defendant owned a telemarketing business called International Business Network, Inc. (IBN) and that employees of IBN obtained information about copy machines and personnel at numerous companies across the U.S. and used that fraudulently obtained information to dupe businesses into buying toner at inflated prices. The indictment alleges that the price charged was two to three times more than the actual value of the toner, that incomplete orders were shipped but billed as complete orders, and the toner IBN shipped was defective. Investigators have determined that the total amount of the fraud is more than $3 million.

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Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.